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BEFORE THE ARIZONA CORPORATION COMMISSION

**COMMISSIONERS**

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GARY PIERCE  
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BOB BURNS  
SUSAN BITTER SMITH

ARIZONA CORPORATION COMMISSION  
DOCKET CONTROL

Arizona Corporation Commission

**DOCKETED**

AUG 19 2013

DOCKETED BY	h2
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IN THE MATTER OF THE APPLICATION  
OF SAHUARITA WATER COMPANY, LLC  
FOR A RATE INCREASE.

DOCKET NO. W-03718A-09-0359

**MOTION TO AMEND DECISION 72177  
PURSUANT TO A.R.S. § 40-252 AND  
PETITION FOR FURTHER RATE  
RELIEF**

Sahuarita Water Company, ("Sahuarita Water" or the "Company") hereby submits this Motion to Amend Decision 72177 pursuant to A.R.S. § 40-252 and Petition for Further Rate Relief (collectively "Petition") to increase its test year revenue requirement by including income tax expense based upon the Arizona Corporation Commission's ("Commission") recently adopted Policy Statement on Income Tax Expense for Tax Pass-Through Entities ("Income Tax Policy Statement"), which is codified in Decision 73739. Sahuarita Water further requests that the Commission approve adjusted rates and charges to be charged prospectively for all water services provided from and after the date of a decision on this Petition. Finally, the Company requests that this Petition be approved without a hearing following verification of the information and schedules provided herein by Utilities Division Staff ("Staff").

**I. INTRODUCTION**

Sahuarita Water is a limited liability company. The Commission approved new rates and charges for Sahuarita Water in Decision 72177. In its application to increase its rates and charges, Sahuarita Water requested that the Commission authorize income tax expense as a part of its revenue requirement. While the Commission did not authorize income tax expense at the time it issued Decision 72177, it included the following ordering paragraph:

1 IT IS FURTHER ORDERED that in the event the Commission alters its policy to  
2 allow S-corporation and LLC entities to impute a hypothetical income tax expense  
3 for ratemaking purposes, Sahuarita Water Company may file a motion to amend  
4 this Order prospectively, and Sahuarita Water Company, LLC's authorized  
revenue requirement hereunder, pursuant to A.R.S. § 40-252, to reflect the change  
in Commission policy.

5 (SEE Decision No. 72177 at pp 45-46, lines 26-28, 1-2).

6 After considering the question of income tax expense for limited liability companies and S  
7 corporations over several years in various rate cases, public workshops in a generic docket, and  
8 open meetings, the Commission adopted the Income Tax Policy Statement at its February 12,  
9 2013, Open Meeting, as codified in Decision 73739 in Docket No. W-00000C-06-0149.  
10 Specifically, the Commission found in Decision 73739 that "[i]t is in the public interest to adopt  
11 the attached Revised Policy Statement to guide the ratemaking treatment of income taxes for tax  
12 pass-through public service corporations."<sup>1</sup> The Income Tax Policy Statement states, in part, as  
13 follows:

14 Based upon the evidence and testimony which has been presented in the recent rate  
15 cases before this Commission as well as the generic docket, we are persuaded that  
16 a tax pass-through entity should be allowed to recover income tax expense as a  
17 part of its cost of service and that its revenue requirement should be grossed up for  
18 the effect of income taxes. We are persuaded that the failure to include income tax  
19 expense needlessly discriminates against tax pass-through entities and creates an  
20 artificial impediment to investment in utility infrastructure. Neither of these  
21 outcomes serves the interests of rate payers. Thus, we hereby adopt a new policy  
22 which allows imputed income tax expense in the cost of service for limited  
23 liability companies, Subchapter S corporations and partnerships. While sole  
24 proprietorships are not technically tax pass-through entities, the arguments  
25 supporting the inclusion of income tax expense for tax pass-through entities are  
26 equally applicable in the case of sole proprietorships. Thus, the policy will apply  
to sole proprietorships as well as tax pass-through entities.

This new policy will be applied in pending and future rate cases. Also, companies  
that have been denied recognition of income tax expense in the past may make a  
filing under A.R.S. § 40-252 to modify the revenue requirement authorized in their  
most recent rate case order to include income tax expense prospectively from the  
date of an order of the Commission approving the A.R.S. § 40-252 filing.

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<sup>1</sup> Decision No. 73739 at p.2, lines 6-8.

(SEE Policy Statement on Income Tax Expense for Tax Pass-Through Entities (Revised 2/8/13) at pg. 1 of attached Decision No. 73739 as Attachment 1).

Sahuarita Water was denied recognition of income tax expense in its most recent rate case, and consistent with Decision 73739, the Company requests that the Commission issue its order amending Decision 72177 to authorize recovery of income tax expense as part of its cost of service and that its revenue requirement be grossed up for the effect of income taxes, as calculated on the schedules which are attached hereto.

## **II. CALCULATION OF INCOME TAX EXPENSE.**

The Commission's Income Tax Policy Statement sets forth a step-by-step methodology for calculating income tax expense for tax pass-through entities. Sahuarita Water followed the methodology set forth by the Commission in calculating the income tax expense amount for the Company. Attached here as Attachment 1 are the following schedules which support the Company's calculation of the tax expense amount for Sahuarita Water:

SAHUARITA WATER COMPANY SCHEDULES	
Schedule A-1	Computation of Increase in Gross Revenue Requirements As Adjusted
Schedule C-1	Income Statement
Schedule C-2	Adjustment to Revenues and Expenses – Adjustment No. 1
Schedule C-3 (pages 1-2)	Computation of Gross Revenue Conversion Factor
Schedule C-3 (pages 3.1-3.3)	Effective Tax Rate Computation at Present Rates
Schedules C-3 (pages 4.1-4.3)	Effective Tax Rate Computation at Proposed Rates
Schedule C-3 (page 5)	Effective Tax Rate and Income Tax Comparison to C-Corp.
Schedule H-2 (pages 1-2)	Customer Summary
Schedule H-3 (pages 1-2)	Present and Proposed Rates

1 As shown in Schedule A-1, the inclusion of income tax expense results in an increase in  
2 the revenue requirement of \$178,328. As shown on Schedule H-2, the change in revenue  
3 requirement increases the bill of a water customer with a 5/8-inch meter and average monthly  
4 usage of 5,424 gallons by \$2.27 per month, from \$31.48 to \$33.74, an increase of 7.2%.

5 Schedule C-3, page 9, shows that income tax expense using the weighted average  
6 effective tax rate for the combined ownership of Sahuarita Water as a limited liability company is  
7 lower than the income tax expense calculated assuming that Sahuarita Water is a stand-alone  
8 subchapter C corporation. Schedules H-2 and H-3 show the Company's proposed rate design.

9 **III. CONCLUSION.**

10 For the reasons set forth herein, Sahuarita Water requests that the Commission grant its  
11 request to amend Decision 72177 to increase the Company's test year revenue requirement to  
12 reflect the inclusion of income tax expense based upon the Commission's recently adopted  
13 Income Tax Policy Statement, as set forth in Decision 73739. Sahuarita Water further requests  
14 that the Commission approve adjusted rates to be charged prospectively by the Company as set  
15 forth in Schedule H-3 as attached hereto. Finally, the Company requests that its Petition be  
16 approved without a hearing following verification by Staff of the information and schedules  
17 provided herein.

18 RESPECTFULLY SUBMITTED this 19<sup>th</sup> day of August, 2013.

19  
20 Lawrence V. Robertson, Jr.  
21 P.O. Box 1448  
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23 Attorney for Sahuarita Water Company  
24 Of Counsel to MUNGER CHADWICK, P.L.C.

25 and

26 Robert J. Metli  
MUNGER CHADWICK, P.L.C.  
Attorneys for Sahuarita Water Company

By: 

Robert J. Metli

1 Original and 13 copies of the foregoing  
2 filed this 19<sup>th</sup> day of August, 2013, with:

3 Docket Control  
4 Arizona Corporation Commission  
5 1200 West Washington  
6 Phoenix, Arizona 85007

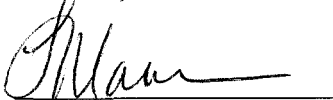
7 Copy of the foregoing hand-delivered/  
8 mailed this 19<sup>th</sup> day of August, 2013, to:

9 Lyn Farmer, Chief Administrative Law Judge  
10 Hearing Division  
11 ARIZONA CORPORATION COMMISSION  
12 1200 West Washington  
13 Phoenix, Arizona 85007

14 Jane Rodda  
15 Administrative Law Judge  
16 400 West Congress, Suite 218  
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21 1200 West Washington  
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23 Steven Olea, Director  
24 Utilities Division  
25 ARIZONA CORPORATION COMMISSION  
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Phoenix, AZ 85007



**Attachment 1**

**Sahuarita Water Company**  
Test Year Ended December 31, 2008  
Computation of Increase in Gross Revenue  
Requirements As Adjusted

Exhibit  
Schedule A-1

Line No.		<u>Decision 72177</u>	<u>40-252 Income Tax</u>	<u>Difference</u>
1	Fair Value Rate Base	\$ 8,805,561	\$ 8,805,561	\$ -
2				
3				
4	Operating Revenues	\$ 2,215,143	\$ 2,215,143	
5	Operating Expenses before Property Taxes and Income Taxes	1,705,505	1,705,505	
6	Property Taxes	103,864	103,864	
7	Income Taxes	-	52,155	
8	Adjusted Operating Income	\$ 405,773	\$ 353,618	\$ (52,155)
9				
10	Current Rate of Return	4.61%	4.02%	
11				
12	Required Operating Income	\$ 810,112	\$ 810,112	\$ -
13				
14	Required Rate of Return	9.20%	9.20%	
15				
16	Operating Income Deficiency	\$ 404,338	\$ 456,494	\$ 52,155
17				
18	Gross Revenue Conversion Factor	1.00000	1.27640	
19				
20	Increase in Gross Revenue			
21	Requirement	\$ 404,338	\$ 582,666	\$ 178,328
22				
23	Test Year Adjusted Revenues	\$ 2,215,143	\$ 2,215,143	\$ -
24	Increase in Revenue Requirement	\$ 404,338	\$ 582,666	\$ 178,328
25	Proposed Revenue Requirement	\$ 2,619,481	\$ 2,797,809	\$ 178,328
26	% Increase	18.25%	26.30%	8.05%
27				
28				
29				
30				
31				
32				
33	Property Taxes at Proposed Revenues	\$ 103,864	\$ 113,072	\$ 9,208
34	Income Taxes at Proposed Revenues	-	\$ 169,121	\$ 169,121
35			Total	178,328
36			Change in Revenue Requirement	178,328
37			Difference	0
38				rounding
39				
40				
41				
42				
43	<u>SUPPORTING SCHEDULES</u>			
44	Decision			
45	C-1			
46	C-2			
47	C-3			
48				
49				
50				

**Sahuarita Water Company**  
Test Year Ended December 31, 2008  
Income Statement

Exhibit  
Schedule C-1  
Page 1

Line No.		Per Decision Adjusted Test Year	1 Income Tax	40-252 Adjusted Results	Proposed Rate Increase	40-252 Adjusted with Rate Increase
1	<b>Revenues</b>					
2	Metered Water Revenues	\$ 2,057,901	\$ -	\$ 2,057,901	\$ 582,666	\$ 2,640,567
3	Unmetered Water Revenues	-		-		-
4	Other Water Revenues	157,242		157,242		157,242
5		<u>\$ 2,215,143</u>		<u>\$ 2,215,143</u>	<u>\$ 582,666</u>	<u>\$ 2,797,809</u>
6	<b>Operating Expenses</b>					
7	Salaries and Wages	\$ -		\$ -		\$ -
8	Purchased Water	4,256		4,256		4,256
9	Purchased Power	147,364		147,364		147,364
10	Fuel for Power Production	-		-		-
11	Chemicals	11,866		11,866		11,866
12	Repairs and Maintenance	75,423		75,423		75,423
13	Materials & Supplies	30,131		30,131		30,131
14	Outside Services	635,442		635,442		635,442
15	Water Testing	10,382		10,382		10,382
16	Rents	1,896		1,896		1,896
17	Transportation Expenses	22,358		22,358		22,358
18	Insurance - General Liability	21,111		21,111		21,111
19	Insurance - Health and Life	-		-		-
20	Reg. Comm. Exp.	-		-		-
21	Reg. Comm. Exp. - Rate Case	45,000		45,000		45,000
22	Miscellaneous Expense	14,724		14,724		14,724
23	Bad Debt Expense	109		109		109
24	Depreciation Expense	673,842		673,842		673,842
25	Taxes Other Than Income	11,602		11,602		11,602
26	Property Taxes	103,864	-	103,864	9,208	113,072
27	Income Tax	-	52,155	52,155	116,965	169,121
28	Reconciling Amount	(2)		(2)		(2)
29	<b>Total Operating Expenses</b>	<u>\$ 1,809,369</u>	<u>\$ 52,155</u>	<u>\$ 1,861,524</u>	<u>\$ 126,173</u>	<u>\$ 1,987,698</u>
30	<b>Operating Income</b>	<u>\$ 405,773</u>	<u>\$ (52,155)</u>	<u>\$ 353,618</u>	<u>\$ 456,493</u>	<u>\$ 810,111</u>
31	<b>Other Income (Expense)</b>					
32	Interest Income	\$ -		\$ -		\$ -
33	Other income (loss)	-		-		-
34	Interest Expense	-	66,922	66,922		66,922
35	Other Expense	-		-		-
36		-		-		-
37	<b>Total Other Income (Expense)</b>	<u>\$ -</u>	<u>\$ 66,922</u>	<u>\$ 66,922</u>	<u>\$ -</u>	<u>\$ 66,922</u>
38	<b>Net Profit (Loss)</b>	<u>\$ 405,773</u>	<u>\$ 14,767</u>	<u>\$ 420,540</u>	<u>\$ 456,493</u>	<u>\$ 877,034</u>

39  
40 SUPPORTING SCHEDULES:  
41 C-2, page 1  
42 C-3  
43

RECAP SCHEDULES:



**Sahuarita Water Company**  
Test Year Ended December 31, 2008  
Adjustment to Revenues and Expenses  
Adjustment Number 1

Exhibit  
Schedule C-2  
Page 1

Line No.			
1	<u>Property Taxes:</u>		
2			
3			
4	<u>DESCRIPTION</u>	<u>Test Year as adjusted</u>	<u>Company Recommended</u>
5	Company Adjusted Test Year Revenues	\$ 2,215,143	\$ 2,215,143
6	Weight Factor	2	2
7	Subtotal (Line 1 * Line 2)	4,430,285	4,430,285
8	Company Recommended Revenue	2,215,143	2,797,809
9	Subtotal (Line 4 + Line 5)	6,645,428	7,228,094
10	Number of Years	3	3
11	Three Year Average (Line 5 / Line 6)	2,215,143	2,409,365
12	Department of Revenue Multiplier	2	2
13	Revenue Base Value (Line 7 * Line 8)	4,430,285	4,818,729
14	Plus: 10% of CWIP - 2010	-	-
15	Less: Net Book Value of Licensed Vehicles	48,652	48,652
16	Full Cash Value (Line 9 + Line 10 - Line 11)	4,381,633	4,770,077
17	Assessment Ratio	20.0%	20.0%
18	Assessment Value (Line 12 * Line 13)	876,327	954,015
19	Composite Property Tax Rate - Obtained from ADOR	11.8522%	11.8522%
20	Test Year Adjusted Property Tax Expense (Line 14 * Line 15)	\$ 103,864	\$ 113,072
21	Tax on Parcels	-	-
22	Total Property Taxes (Line 16 + Line 17)	\$ 103,864	
23	Test Year Property Taxes	\$ 103,864	
24	Adjustment to Test Year Property Taxes (Line 18 - Line 19)	\$ -	
25			
26	Property Tax on Company Recommended Revenue (Line 16 + Line 17)		\$ 113,072
27	Company Test Year Adjusted Property Tax Expense (Line 18)		\$ 103,864
28	Increase in Property Tax Due to Increase in Revenue Requirement		\$ 9,208
29			
30	Increase in Property Tax Due to Increase in Revenue Requirement (Line 24)		\$ 9,208
	Increase in Revenue Requirement		\$ 582,666
	Increase in Property Tax Per Dollar Increase in Revenue (Line 26 / Line 27)		1.58029%

**Sahuarita Water Company**  
Test Year Ended December 31, 2008  
Computation of Gross Revenue Conversion Factor

Exhibit  
Schedule C-3  
Page 1

Line		Percentage of Incremental Gross Revenues
No.	Description	
1	State and Federal Income Taxes	20.3964%
2		
3		
4		
5	Other Taxes and Expenses	1.2580%
6		
7		
8	Total Tax Percentage	21.6544%
9		
10	Operating Income % = 100% - Tax Percentage	78.3456%
11		
12		
13		
14		
15	<u>1</u> = Gross Revenue Conversion Factor	
16	Operating Income %	1.2764
17		
18	<u>SUPPORTING SCHEDULES:</u>	<u>RECAP SCHEDULES:</u>
19	C-3 page 2	A-1
20		

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)	(E)	(F)
<u>Calculation of Gross Revenue Conversion Factor:</u>							
1	Revenue	100.0000%					
2	Uncollectible Factor (Line 11)	0.0000%					
3	Revenues (L1 - L2)	100.0000%					
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	21.6544%					
5	Subtotal (L3 - L4)	78.3456%					
6	Revenue Conversion Factor (L1 / L5)	1.276396					
<u>Calculation of Uncollectible Factor:</u>							
7	Unity	100.0000%					
8	Combined Federal and State Tax Rate (Line 17)	20.3964%					
9	One Minus Combined Income Tax Rate (L7 - L8)	79.6036%					
10	Uncollectible Rate	0.0000%					
11	Uncollectible Factor (L9 * L10)		0.0000%				
<u>Calculation of Effective Tax Rate:</u>							
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%					
13	Arizona State Income Tax Rate (L55 Col [E])	2.9450%					
14	Federal Taxable Income (L12 - L13)	97.0550%					
15	Applicable Federal Income Tax Rate (Line 44)	17.9810%					
16	Effective Federal Income Tax Rate (L14 x L15)	17.4515%					
17	Combined Federal and State Income Tax Rate (L13 +L16)		20.3964%				
<u>Calculation of Effective Property Tax Factor</u>							
18	Unity	100.0000%					
19	Combined Federal and State Income Tax Rate (L17)	20.3964%					
20	One Minus Combined Income Tax Rate (L18-L19)	79.6036%					
21	Property Tax Factor	1.5803%					
22	Effective Property Tax Factor (L20*L21)		1.2580%				
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			21.6544%			
24	Required Operating Income	\$ 810,112					
25	Adjusted Test Year Operating Income (Loss)	\$ 353,618					
26	Required Increase in Operating Income (L24 - L25)		\$ 456,494				
27	Income Taxes on Recommended Revenue (Col. (F), L52)	\$ 169,121					
28	Income Taxes on Test Year Revenue (Col. (C), L52)	\$ 52,155					
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		\$ 116,965				
30	Recommended Revenue Requirement	\$ 2,797,809					
31	Uncollectible Rate (Line 10)	0.0000%					
32	Uncollectible Expense on Recommended Revenue (L24 * L25)	\$ -					
33	Adjusted Test Year Uncollectible Expense	\$ -					
34	Required Increase in Revenue to Provide for Uncollectible Exp.		\$ -				
35	Property Tax with Recommended Revenue	\$ 113,072					
36	Property Tax on Test Year Revenue	\$ 103,864					
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		\$ 9,208				
38	Total Required Increase in Revenue (L26 + L29 + L34+L37)		\$ 582,667				
<u>Calculation of Income Tax:</u>							
39	Revenue	\$ 2,215,143	\$ 2,215,143		\$ 2,797,809	\$ 2,797,809	
40	Operating Expenses Excluding Income Taxes	\$ 1,809,369	\$ 1,809,369		\$ 1,818,577	\$ 1,818,577	
41	Synchronized Interest (L47)	\$ 66,922	\$ 66,922		\$ 66,922	\$ 66,922	
42	Arizona Taxable Income (L39 - L40 - L31)	\$ 338,851	\$ 338,851		\$ 912,311	\$ 912,311	
43	Arizona State Income Tax Rate (see Schedule C-3, page 3 and 4)	2.5945%	2.5945%		2.8148%	2.8148%	
44	Arizona Income Tax (L42 x L43)	\$ 8,791	\$ 8,791		\$ 25,680	\$ 25,680	
45	Federal Taxable Income (L42 - L44)	\$ 330,060	\$ 330,060		\$ 886,631	\$ 886,631	
46	Federal Tax Rate (see Schedule C-3, page 3 and 4)	13.1382%	13.1382%		16.1782%	16.1782%	
47	Federal Income Taxes (L45xL46)	\$ 43,364	\$ 43,364		\$ 143,441	\$ 143,441	
48							
49							
50							
51	Total Federal Income Tax (L47)	\$ 43,364	\$ 43,364		\$ 143,441	\$ 143,441	
52	Combined Federal and State Income Tax (L44 + L47)	\$ 52,155	\$ 52,155	\$ -	\$ 169,121	\$ 169,121	\$ -
53	COMBINED Applicable Federal Income Tax Rate [Col. (D), L51 - Col. (A), L51] / [Col. (D), L45 - Col. (A), L45]				17.9810%		
54	Applicable Federal Income Tax Rate [Col. (E), L51 - Col. (B), L51] / [Col. (E), L45 - Col. (B), L45]					17.9810%	
55	Applicable State Income Tax Rate [Col. (E), L44 - Col. (B), L44] / [Col. (E), L42 - Col. (B), L42]					2.9450%	
<u>Calculation of Interest Synchronization:</u>							
56	Rate Base	\$ 8,805,561					
57	Weighted Average Cost of Debt	0.7600%					
58	Synchronized Interest (L56 X L57)	\$ 66,922					

Shareholder	1st level Ownership Type	1st level Ownership Tax Status	2nd Level Ownership Type	2nd Level Ownership Tax Status	2nd Level Ownership Tax Filing Status	3rd Level Ownership Type	3rd Level Ownership Tax Status	3rd Level Ownership %	Taxable Ownership Tax Filing Status	Federal Effective Tax Rate	State Effective Tax Rate	Wide Average State Tax Rate
1	Subchapter S Corp	0.666700000%	Individual	Taxable	100.00000% MFJ	Individual	Taxable			10.0000%	0.0667%	0.0173%
2	Limited Partnership	66.000000000%	Individual	Non-Taxable	0.00000% NA	Individual	Non-Taxable			10.0000%	0.0000%	0.0000%
			Benefit Plan	Taxable	0.30000% MFJ	Individual	Taxable			10.0000%	0.0198%	0.0051%
			Individual	Taxable	0.90000% NA	Individual	Taxable			10.0000%	0.0000%	0.0000%
			Partnership	Non-Taxable	0.15000% S	Individual	Taxable			10.0000%	0.0099%	0.0026%
					15.00000% Pass-through	Individual	Taxable			10.0000%	0.0000%	0.0044%
						Benefit Plan	Non-Taxable	1.70000% MFJ		10.0000%	0.0168%	0.0000%
						Individual	Taxable	4.25000% Non-Taxabl		10.0000%	0.0000%	0.0000%
						Individual	Taxable	4.25000% MFJ		10.0000%	0.0421%	0.0109%
						Individual	Taxable	4.56100% Non-Taxabl		10.0000%	0.0000%	0.0000%
						Individual	Taxable	1.41670% S		10.0000%	0.0140%	0.0036%
						Individual	Taxable	1.41670% S		10.0000%	0.0140%	0.0036%
						Individual	Taxable	2.12500% S		10.0000%	0.0210%	0.0054%
						Individual	Taxable	2.12500% MFJ		10.0000%	0.0210%	0.0054%
						Individual	Taxable	8.50000% MFJ		10.0000%	0.0842%	0.0218%
						Individual	Taxable	4.25000% MFJ		10.0000%	0.0421%	0.0109%
						Trust	Taxable	5.10000% MFJ		10.0000%	0.0505%	0.0131%
						Benefit Plan	Non-Taxable	0.00000%		10.0000%	0.0000%	0.0000%
						Individual	Taxable	3.08250% MFJ		10.0000%	0.0303%	0.0079%
						Benefit Plan	Non-Taxable	4.25000% Non-Taxabl		10.0000%	0.0000%	0.0000%
						Benefit Plan	Non-Taxable	4.25000% Non-Taxabl		10.0000%	0.0000%	0.0000%
						Individual	Taxable	4.25000% MFJ		10.0000%	0.0421%	0.0109%
						Trust	Taxable	12.11250% S		10.0000%	0.1198%	0.0311%
						Individual	Taxable	2.55000% MFJ		10.0000%	0.0252%	0.0065%
						Individual	Taxable	3.93900% MFJ		10.0000%	0.0390%	0.0101%
						Individual	Taxable	2.12500% S		10.0000%	0.0210%	0.0054%
						Individual	Taxable	7.50000% MFJ		10.0000%	0.0743%	0.0192%
						Individual	Taxable	0.93750% MFJ		10.0000%	0.0093%	0.0024%
						Individual	Taxable	0.93750% S		10.0000%	0.0093%	0.0024%
						Individual	Taxable	1.87500% MFJ		10.0000%	0.0186%	0.0048%
						Individual	Taxable	1.87500% MFJ		10.0000%	0.0186%	0.0048%
						Individual	Taxable	1.87500% MFJ		10.0000%	0.0186%	0.0048%
						Individual	Taxable	0.15000% MFJ		10.0000%	0.0099%	0.0000%
						Individual	Taxable	5.25000% MFJ		10.0000%	0.3465%	0.0000%
						Individual	Taxable	1.50000% S		10.0000%	0.0990%	0.0000%
						Individual	Taxable	0.90000% MFJ		10.0000%	0.0594%	0.0000%
						Benefit Plan	Non-Taxable	0.60000% NA		10.0000%	0.0000%	0.0000%
						Individual	Taxable	0.30000% S		10.0000%	0.0198%	0.0051%
						Individual	Taxable	0.30000% MFJ		10.0000%	0.0198%	0.0051%
						Individual	Taxable	2.25000% MFJ		10.0000%	0.1485%	0.0385%
						Individual	Taxable	0.60000% MFJ		10.0000%	0.0396%	0.0103%
						Individual	Taxable	0.38000% MFJ		10.0000%	0.0251%	0.0065%
						Individual	Taxable	0.15000% MFJ		10.0000%	0.0099%	0.0026%
						Individual	Taxable	1.50000% MFJ		10.0000%	0.0990%	0.0256%
						Individual	Taxable	0.15000% MFJ		10.0000%	0.0099%	0.0026%
						Individual	Taxable	0.07500% MFJ		10.0000%	0.0099%	0.0026%
						Individual	Taxable	1.00000% MFJ		10.0000%	0.0660%	0.0171%
						Individual	Taxable	0.07500% MFJ		10.0000%	0.0050%	0.0013%
						Individual	Taxable	2.49000% MFJ		10.0000%	0.1643%	0.0426%
						Trust	Taxable	2.49000% S		10.0000%	0.1643%	0.0426%
						Individual	Taxable	0.75000% Trust		21.1783%	0.3522%	0.0431%
						Individual	Taxable	0.75000% S		10.0000%	0.0465%	0.0128%
						Limited Liability Co.	Pass-Through	9.30000% Pass-Through		10.0000%	0.3413%	0.0884%
						Individual	Taxable	0.07500% MFJ		10.0000%	0.0396%	0.0103%
						Individual	Taxable	0.07500% S		10.0000%	0.0050%	0.0013%
						Individual	Taxable	0.07500% S		10.0000%	0.0050%	0.0013%
						Limited Liability Co.	Pass-Through	2.25000% Pass-Through		10.0000%	0.0050%	0.0013%
						Individual	Taxable	0.03000% MFJ		10.0000%	0.0106%	0.0277%
						Individual	Taxable	0.03000% MFJ		10.0000%	0.0416%	0.0108%
						Individual	Taxable	0.03000% MFJ		10.0000%	0.0020%	0.0005%
						Individual	Taxable	0.03000% MFJ		10.0000%	0.0020%	0.0005%

[illegible]

[illegible]

## **SUPPORTING SCHEDULE**

### **Work papers**



[illegible]



[illegible]

**SUPPORTING SCHEDULE**  
**Work papers**

**Sahuarita Water Company**  
Test Year Ended December 31, 2008  
Effective Tax Rate and Income Tax Comparison to C-Corp.

Exhibit  
Schedule C-3  
Page 5

Line

No.

	<u>S-Corp</u>	<u>C-Corp.</u>	<u>Difference</u>
1			
2 State Income Taxes at Proposed Rates	\$ 25,680	\$ 84,340	\$ 58,660
3 Federal Income Taxes at Proposed Rates	143,441	\$ 382,855	239,414
4 Total Income Taxes	<u>\$ 169,121</u>	<u>\$ 467,195</u>	<u>\$ 298,074</u>

5

6

7

8

9

10

11

12

13

14

15

16 SUPPORTING SCHEDULES

17 C-3, page 2

18 Work papers

19

20

**Sahuaria Water Company**  
Test Year Ended December 31, 2008  
Customer Summary

Exhibit  
Schedule H-2  
Page 1

Line No.		(a) Average Number of Customers	Average Consumption at 12/31/2008	Dec. 72177 Present Rates	40-252 Proposed Rates	Proposed Increase Dollar Amount	Percent Amount
1							
2							
3							
4							
5							
6							
7							
8	5/8x3/4 inch Residential	3,913	5,424 \$	31.48 \$	33.74	2.27	7.20%
9	3/4 inch Residential	421	6,142	42.99	46.08	3.10	7.20%
10	1 inch Residential	52	6,957	64.35	68.96	4.61	7.17%
11							
12	Subtotal	4,386					
13							
14	1 inch Commercial	1	8,467	69.63	74.63	4.99	7.17%
15	2 inch Commercial	13	128,857	606.20	649.56	43.36	7.15%
16	3 inch Commercial	1	116,750	664.63	712.21	47.59	7.16%
17							
18	Subtotal	16					
19							
20	1 inch Public Authority	1	9,667	73.83	79.13	5.29	7.17%
21	2 inch Public Authority	8	9,958	162.85	174.54	11.69	7.18%
22							
23	Subtotal	9					
24							
25	5/8x3/4 inch Irrigation	11	56,939 \$	248.85 \$	266.63	17.78	7.15%
26	3/4 inch Irrigation	9	8,236	53.83	57.68	3.86	7.17%
27	1 inch Irrigation	40	26,025	135.30	144.99	9.68	7.16%
28	1.5 inch Irrigation	9	48,130	248.45	266.24	17.78	7.16%
29	2 inch Irrigation	39	147,745	685.53	734.55	49.02	7.15%
30	3 inch Irrigation	0	61,667	471.83	505.65	33.82	7.17%
31							
32	Subtotal	108					
33							
34							
35	3 inch Construction	6	41,803	431.57	462.51	30.94	7.17%
36							
37	Subtotal	6					
38							
39	Total						
40							
41							

(a) Average number of customers of less than one (1), indicates that less than 12 bills were issued during the year.

Exhibit  
Schedule H-2  
Page 2

Line No.	(a) Average Number of Customers at 12/31/2008	Median Consumption	Dec. 72/17 Present Rates	40-252 Proposed Rates	Proposed Increase Dollar Amount	Percent Amount
1						
2						
3						
4						
5						
6						
7	<b>Meter Size, Class</b>					
8	5/8x3/4 Inch Residential	3,913	\$ 5,000	\$ 32.15	2.16	7.20%
9	3/4 Inch Residential	421	5,000	41.80	2.81	7.21%
10	1 Inch Residential	52	6,000	65.38	4.38	7.17%
11						
12	Subtotal	4,386				
13						
14	1 Inch Commercial	1	9,000	71.50	76.63	7.17%
15	2 Inch Commercial	13	78,000	401.00	429.70	7.16%
16	3 Inch Commercial	1	134,500	726.75	778.78	7.16%
17						
18	Subtotal	16				
19						
20	1 Inch Public Authority	1	9,000	69.75	74.75	7.17%
21	2 Inch Public Authority	8	13,375	149.00	159.70	7.18%
22						
23	Subtotal	9				
24						
25	5/8x3/4 Inch Irrigation	11	5,000	33.50	35.90	7.16%
26	3/4 Inch Irrigation	9	3,000	35.50	38.05	7.18%
27	1 Inch Irrigation	40	59,000	273.80	293.38	7.15%
28	1.5 Inch Irrigation	9	22,500	158.75	170.13	7.17%
29	2 Inch Irrigation	39	68,000	366.00	392.20	7.16%
30	3 Inch Irrigation	0	9,000	287.50	308.15	7.18%
31						
32	Subtotal	108				
33						
34						
35	3 Inch Construction	6	4,500	274.90	294.65	7.18%
36						
37	Subtotal	6				
38						
39	Total	4,524				
40						
41	(a) Average number of customers of less than one (1), indicates that less than 12 bills were issued during the year.					

**Sahuarta Water Company**  
**Test Year Ended December 31, 2008**  
**Present and Proposed Rates**  
**Typical Rate Design**

**Exhibit**  
**Schedule H-3**  
**Page 1**

Line No.		Dec. 72177 Present Rates	40-252 Proposed Rates	Change	Percent Change
1					
2	<b>Monthly Usage Charge for:</b>				
3	<b>Meter Size (All Classes):</b>				
4	5/8x3/4inch	\$ 16.00	\$ 17.15	\$ 1.15	7.19%
5	3/4 Inch	25.00	26.80	1.80	7.20%
6	1 Inch	40.00	42.88	2.88	7.19%
7	1 1/2 Inch	80.00	85.75	5.75	7.19%
8	2 Inch	128.00	137.20	9.20	7.19%
9	3 Inch	256.00	274.40	18.40	7.19%
10	4 Inch	400.00	428.75	28.75	7.19%
11	6 Inch	800.00	857.50	57.50	7.19%
12					
13					
14					
15	<b>Gallons In Minimum (All Classes)</b>				
16					
17					
18					
19					
20	<b>Commodity Rates</b>				
21					
22					
23	<b>5/8 Inch - Residential</b>				
24	1 gallons to 3,000 gallons	\$ 2.33	\$ 2.50	\$ 0.17	7.30%
25	3,000 to 9,000 gallons	\$ 3.50	\$ 3.75	\$ 0.25	7.14%
26	over 9,000 gallons	\$ 4.20	\$ 4.50	\$ 0.30	7.14%
27	<b>5/8 Inch - Commercial/Irrigation</b>				
28	1 gallons to 9,000 gallons	\$ 3.50	\$ 3.75	\$ 0.25	7.14%
29	Over 9,000 gallons	\$ 4.20	\$ 4.50	\$ 0.30	7.14%
30	<b>3/4 Inch Meter - Residential</b>				
31	1 gallons to 3,000 gallons	\$ 2.33	\$ 2.50	\$ 0.17	7.30%
32	3,001 to 9,000 gallons	\$ 3.50	\$ 3.75	\$ 0.25	7.14%
33	over 9,000 gallons	\$ 4.20	\$ 4.50	\$ 0.30	7.14%
34	<b>3/4 Inch - Commercial, Irrigation</b>				
35	1 gallons to 9,000 gallons	\$ 3.50	\$ 3.75	\$ 0.25	7.14%
36	Over 9,001 gallons	\$ 4.20	\$ 4.50	\$ 0.30	7.14%
37					
38					
39					
40					

(Per 1,001 gallons)  
Dec. 72177 40-252  
Present Rate Proposed Rate

Change Percent  
Change

**Sahuarita Water Company**  
**Test Year Ended December 31, 2008**  
**Present and Proposed Rates**  
**Typical Rate Design**

Exhibit  
Schedule H-3  
Page 2

Line No.			(Per 1,001 gallons)			
			Dec. 72177	40-252		
			Present	Proposed		
			Rate	Rate	Change	Percent Change
1	<b>Commodity Rates</b>	<b>Block</b>				
2						
3						
4						
5						
6						
7	1 Inch Meter (All Classes, except Standpipe/Const.)	1 gallons to 20,000 gallons	\$ 3.50	\$ 3.75	\$ 0.25	7.14%
8		over 20,000 gallons	\$ 4.20	\$ 4.50	\$ 0.30	7.14%
9						
10	1.5 Inch Meter (All Classes, except Standpipe/Const.)	1 gallons to 55,000 gallons	\$ 3.50	\$ 3.75	\$ 0.25	7.14%
11		over 50,000 gallons	\$ 4.20	\$ 4.50	\$ 0.30	7.14%
12						
13	2 Inch Meter (All Classes, except Standpipe/Const.)	1 gallons to 90,000 gallons	\$ 3.50	\$ 3.75	\$ 0.25	7.14%
14		over 90,000 gallons	\$ 4.20	\$ 4.50	\$ 0.30	7.14%
15						
16	3 Inch Meter (All Classes, except Standpipe/Const.)	1 gallons to 200,000 gallons	\$ 3.50	\$ 3.75	\$ 0.25	7.14%
17		over 200,000 gallons	\$ 4.20	\$ 4.50	\$ 0.30	7.14%
18						
19	4 Inch Meter (All Classes, except Standpipe/Const.)	1 gallons to 350,000 gallons	\$ 3.50	\$ 3.75	\$ 0.25	7.14%
20		over 350,000 gallons	\$ 4.20	\$ 4.50	\$ 0.30	7.14%
21						
22	6 Inch Meter (All Classes, except Standpipe/Const.)	1 gallons to 750,000 gallons	\$ 3.50	\$ 3.75	\$ 0.25	7.14%
23		over 750,000 gallons	\$ 4.20	\$ 4.50	\$ 0.30	7.14%
24						
25						
26	Standpipe/Construction	All gallons	\$ 4.20	\$ 4.50	\$ 0.30	7.14%
27						
28						
29						
30						
31						
32						
33						
34						
35						
36						
37						
38						
39						
40						